

CITY OF RICHARDSON
INTERDEPARTMENTAL POLICY AND PROCEDURE
DEFERRED COMPENSATION PLAN GUIDELINES

POLICY

It is the policy of the City of Richardson to provide deferred compensation plans so that employees may voluntarily set aside a portion of their salary for retirement.

PROCEDURES

I. Enrollment

At any time during the year employees may:

- enroll in the program,
- change beneficiary, and/or
- discontinue contributions.

* Payroll changes may take 30-45 days to process depending on when the change request is received.

II. Contributions to Accounts

Contribution Amounts: The minimum contribution amount per pay period is \$15. As of January 1, 2002, according to IRS regulations, the maximum contribution per year is graduated yearly as shown on the attached chart. The annual maximum may be divided into equal amounts throughout the year. An employee may make larger deposits for a period of time, as long as annual maximums are not exceeded (refer to attached chart).

If/when an employee signs up to make a larger deposit, a change form must be completed and signed to acknowledge contributions will be discontinued when the annual maximum is met (see attached chart). Contributions that are stopped automatically because an employee reaches his/her maximum contribution prior to the end of the year will resume at the beginning of the next calendar year at that same amount, e.g., at the higher amount, unless the employee fills out a contribution change form to return to a lower amount.

Contribution amounts can be changed a maximum of six (6) times during a calendar year.

Terminating Contributions: Contributions to an account may be stopped at any time.

Terminating and Retiring Employees: Since long term employees who leave the City are paid for accrued benefits in accordance with the Civil Service Rules, they may wish to deduct a larger sum from that final check than they have authorized from their regular paycheck. Employees who retire or otherwise terminate their employment with the City may make a special request for deductions from their final paychecks only. This request must be made at least thirty (30) days prior to termination. Employees who desire to utilize this provision must keep in mind that yearly contribution maximums will still apply.

NOTE: Per IRS regulations finalized in 2003, participants may NOT defer any accumulated pay that is paid after they leave employment. Deferral of severance pay, if applicable, is also not allowed.

Catch Up Provision: For the three years prior to the year an employee is eligible to retire, he or she may be eligible to utilize the Regular Catch Up Provision. The maximum contribution for those employees who qualify is shown on the attached chart.

NOTE: IRS regulations allow qualified police and firefighters with at least 15 years of service as full-time employees of any police or fire department to utilize the Catch Up Provision much earlier than other plan participants, by declaring an earlier “normal retirement age” that is not earlier than age 40.

* Payroll changes may take 30-45 days to process, depending on when the change request is received.

III. Allocation of Funds within Accounts (stocks, bonds, etc.)

Employees may make transfers among funds and allocations of new contributions by contacting deferred compensation provider(s) directly, subject to the providers’ rules and regulations.

IV. Withdrawals

Refunds and Payouts: The rules concerning withdrawal from deferred compensation accounts are governed by the Internal Revenue Service. Because the money invested in deferred compensation is “before tax dollars”, the IRS governs when the money can be refunded. Withdrawals can be made:

- Any time after you retire or terminate employment;
- When you have an unforeseen emergency (as defined by IRS), prior to retirement;
- After your death, by your designated beneficiary.

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Interdepartmental Policy and Procedure
Deferred Compensation

Emergency Withdrawals: The IRS audits the circumstances under which an unforeseen emergency withdrawal is allowed. Those withdrawals may be approved only within a very narrow range of situations. For that reason, employees should consider a deferred compensation account as a very long-term method of saving for retirement.

Terminating and Retiring Employees: Participants who terminate employment after January 1, 2002 can wait to request payments until they are ready for the funds to be distributed.

Inactive Accounts: Money in accounts which have been inactive for at least two (2) years (no deposits made), and for which the account total is less than \$1,000, may be withdrawn at any time.

original signed by Bill Keffler

12-30-97 (revised 12-03)

Bill Keffler
City Manager

Date

Attachments: Maximum Deferral Amounts For Deferred Compensation Contributions
Acknowledgement Of Deferred Compensation Maximum Contribution

**MAXIMUM DEFERRAL AMOUNTS
FOR DEFERRED COMPENSATION CONTRIBUTIONS**

<u>Year</u>	Normal Deferral Limits For <u>All Employees *</u>		Deferral Limits (Age Qualified Catch Up) <u>For Employees Over Age 50 *</u>	
	<u>Annual Maximum</u>	<u>Per Pay Period</u>	<u>Annual Maximum</u>	<u>Per Pay Period</u>
2002	\$11,000	\$459	\$12,000	\$500
2003	\$12,000	\$500	\$14,000	\$584
2004	\$13,000	\$542	\$16,000	\$667
2005	\$14,000	\$584	\$18,000	\$750
2006	\$15,000	\$625	\$20,000	\$834

If an employee desires to contribute more than the maximum contribution per pay period, he/she may make larger deposits for a period of time, as long as annual maximums are not exceeded (see chart above). At the time an employee signs up to make a larger deposit, a termination form must be completed and signed to acknowledge contributions will be discontinued when the annual maximum has been met. Contributions that are stopped automatically because an employee reaches his/her annual maximum prior to the end of the year will resume at the beginning of the next calendar year at that same amount, unless the employee fills out a contribution change form to return to the lower amount.

Contribution amounts can be changed a maximum of six (6) times during a calendar year.

*** The Deferred Compensation contribution limit is the lesser of either:**

- (1) **taxable compensation before the deduction of the Deferred Compensation contribution [plus an additional \$1000/year if over age 50] OR**
- (2) **the dollar amount in effect for the year (refer to charts above).**

REGULAR CATCH UP PROVISION

<u>Year</u>	<u>Annual Maximum</u>	<u>Per Pay Period</u>
2002	\$22,000	\$ 917
2003	\$24,000	\$1,000
2004	\$26,000	\$1,085
2005	\$28,000	\$1,167
2006	\$30,000	\$1,250

NOTE 1:

An individual may use the Age Qualified Catch Up provision every year from age 50 through the year in which he/she no longer participates in a deferred compensation plan, with one exception. The exception is this: **the Age Qualified Catch Up cannot be used in the same year that the current Regular Catch Up provision is used.**

NOTE 2:

In some cases, the pay period maximum multiplied by 24 pay days in a calendar year will exceed the annual maximum allowed by IRS rules. In those cases, the payroll system will make the final annual contribution a smaller amount so as not to exceed the IRS-allowed annual maximum.

**ACKNOWLEDGEMENT OF DEFERRED COMPENSATION
MAXIMUM CONTRIBUTION**

For Active Employees:

I have elected to make a lump sum deposit into my deferred compensation account, or a deposit in an amount that exceeds the allowed maximum per payday.

I understand that the IRS limits the amount of contribution I may during the calendar year. I understand that when the allowed annual maximum is reached, my contributions will automatically cease for that year.

I understand that unless I change the contribution amount prior to the start of the next calendar year, my contribution will resume at the level I last requested. I further understand that it is my responsibility to request any change in my contribution amount.

For Retiring or Terminating Employees:

(1)_____I wish to authorize a lump sum contribution for my final paycheck only.

(2)_____I understand I must make this request 30 days prior to my termination.

(3)_____I request my lump sum contribution deducted from my final paycheck to be whatever amount will allow me to reach the IRS mandated maximum.

or

_____I request my lump sum contribution deducted from my final paycheck to be _____, or whatever amount will allow me to reach the IRS mandated annual maximum.

NAME
(Please Print)

DATE

SIGNATURE

SOCIAL SECURITY NUMBER